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8 March 1957

MEMORANDUM FOR: Deputy Director/Intelligence

SUBJECT: The Polish Trade Discussion

1. The meeting of 7 March consisted primarily of a presentation of Poland's most urgent requirement for dollar goods and long- and medium-term credits. All of these priority needs were stated to be in addition to those of like character in the Five Year Plan.

2. For those projects which will take many years (15 to 20) for which expenditures will be made over a long period of time and where production will not be large throughout the early years of the development period, long-term credits will be necessary.

3. Of these long-term projects, the further development of the coal industry is of the highest priority. Although a sizeable investment is contemplated internally for the proposed projects, imports of machinery on long-term credits will be necessary.

4. In addition to the coal-mining projects already in the Five Year Plan, the Polish Delegation proposed the following:

a. New Mines

Three new hard coal mines were proposed with a construction time of five years. Assuming construction on these mines started in 1957, the first production (350,000 tons) would be achieved in 1962. Production rates for subsequent years would be: 1963 - 780,000; 1964 - 2.3 million;

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1965 - 4 million; 1966 - 5 million. Total internal investment on these projects would be approximately 4 billion zlotys and would not include investment in housing for mine workers and auxiliary roads. These expenditures would be highest in the 5th and 6th years of construction. Expenditures for 1957 through 1962 (when production starts) would be 2.5 billion zlotys. As soon as production begins, part of the revenues will be re-invested in the projects. For these projects, \$25 million of mine machinery would be needed from the U.S.

b. Modernization of Existing Hard Coal Mines

The Polish Delegation also proposed a modernization of four of their existing hard coal mines. The construction time will be 3 to 4 years. Current production of these mines is 400,000 tons annually. As modernization proceeded, it is expected that at the end of the third year, production would rise to 500,000 tons; 4th year - 1.3 million; 5th year - 2.2 million; 6th year - 3.2 million; 7th year - 4.2 million. The internal investment would be 2 billion zlotys allocated over these seven years. Of this, 650 million zlotys would be expended before production rises. It would be necessary to import on credit, \$5 million of U.S. mining machinery.

c. Lignite Pits

In order to save hard coal, the Polish Delegation proposed the building of two new open pits of lignite in Central Poland. Construction time would be 4 years, with production rising eventually to 4.5 million tons

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annually, the equivalent to 1 million tons of hard coal. The total internal investment will be 800 million zlotys. Imports of \$16 million of U.S. machinery would be necessary.

5. The Polish Delegation indicated that they had in mind a number of other projects which would require long-term credits. Although they prefer to give the major descriptions of import needs for these in the working group, the following were mentioned:

a. Two factories for the production of synthetic wool with a capacity of 15,000 tons annually. This, according to the Chairman of the Polish Delegation, would supply the Polish requirements without the need for increasing wool imports.

b. A slaughtering house and meat packing plant with 40,000 tons annual capacity.

c. A meat factory with 30,000 tons annual capacity.

d. A powdered milk factory of 500 tons capacity.

e. A canned milk factory of 100 tons annual capacity.

Although the exact credit needs for these and similar projects were not presented, it was suggested by the Polish Delegation that it might be as much as \$100 million.

6. The needs for goods on medium-term credits were chiefly of an agricultural nature. The major priority appeared to be the need for fertilizer and the Polish Delegation suggested if they could import from

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the U.S. 150,000 tons in each year from 1958 through 1960, grain production could be increased by 750,000 tons annually. The types of fertilizer needed were referred to a working group. In addition, seeds, insecticides, and weed killers were desired but a discussion as to amounts and kinds was referred to the working group. It was stated that medium-term credit is also desired for agricultural machinery with exact amounts and kinds to be discussed in a working group.

7. The U.S. proposed forming another working group to consider the above proposals.

8. The Chairman of the U.S. Delegation then made a statement concerning export controls. He reminded the Polish Delegation that export control regulations apply to all commodities which might be shipped under agreements reached in the meetings. Most items will require export licensing and under the terms of U.S. regulations, assurances will have to be made that the items will be used only in Poland and none of the goods will be reexported. These assurances must be made by both the American exporter and the foreign recipient. If there need be an occasion for reexport, it can take place only with the permission of the U.S. The Chairman of the Polish Delegation replied by saying that they have reexport limitations in all their clearing agreements and as they needed the goods under discussion very badly for their own domestic purposes, can readily agree to such conditions. He did ask, however, if there were other

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conditions that would be required. After an exchange of a number of questions and answers on the subject, it was apparent that the reexport condition was the major one that U.S. regulations required. At this point the Chairman of the Polish Delegation begged the pardon of the meeting for the detailed questions because as he said, he knows what to expect when trade is not free but not when trade is free.

9. The Chairman of the Polish Delegation offered a proposal for proceeding with the American property claims. He suggested that because the negotiations of early post war years were now out of date due to nationalization of Polish properties, that they adopt new procedures. He proposed that the negotiation take place in two phases. First, the experts of both countries would meet and verify the American claims and determine the value of the property at the time of the Polish takeover. He suggested a June 1957 meeting in Warsaw for this purpose. Secondly, he proposed that a subsequent meeting be held which would determine a settlement on the basis of the determination and appraisals of the first meeting. This meeting could be held in either Warsaw or Washington. The U.S. promised a later reply to the proposal.

10. As to the defaulted obligations of the Polish Government, the U.S. suggested that members of the Polish Delegation contact the authorized representative of the owners of the defaulted bonds, the Foreign Bondholders Council of New York. It was explained that although the U.S. Government

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has an interest in the outcome of negotiations concerning defaulted Polish dollar bonds, it does not negotiate directly on behalf of private individuals. The Chairman of the Polish Delegation agreed to establish such a contact.

11. The meeting for 8 March will continue discussion on items in the order in which they appear on the Agenda of 4 March.

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Chief, Services Division
Office of Research and Reports

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